



PROGRESS OR PERIL?
MEASURING IRAQ'S RECONSTRUCTION

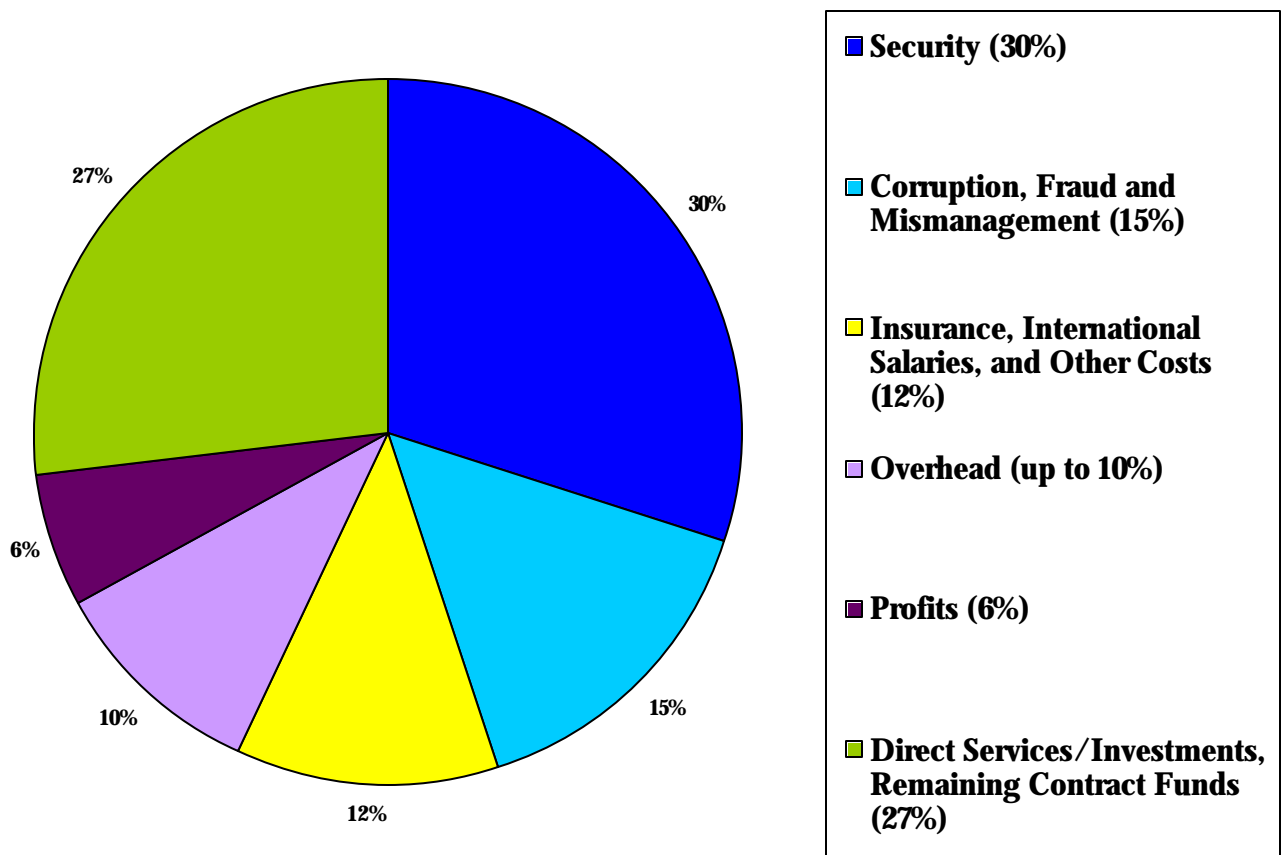
ESTIMATED BREAKDOWN OF FUNDING FLOWS FOR IRAQ'S
RECONSTRUCTION:
HOW ARE THE FUNDS BEING SPENT?
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THE POST-CONFLICT RECONSTRUCTION PROJECT



Project Directors
Frederick Barton
Bathsheba Crocker

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The substantial U.S. funding for the reconstruction effort in Iraq is expected to have a significant impact on the ground.¹ Our analysis, however, shows that the impact will be diffused in a number of ways.

The above chart is an estimated breakdown of costs for reconstruction activities in Iraq across government agencies, drawn from information concerning the spending of both the \$18.4 billion and other U.S. reconstruction monies. These estimates are drawn from a variety of sources, including official audits, independent and government research, interviews with contractors and U.S. government personnel directly involved in Iraq's reconstruction, and the media. Attaining exact estimates about the costs discussed here is not possible, given the dearth of publicly available information. There tends to be a wide divergence in estimates: for example, estimates of security costs range from 15-50 percent of total contract costs.² We chose low to mid-range estimates for purposes of compiling this report.

¹In October 2003, the U.S. Congress appropriated \$18.4 billion for Iraq's reconstruction. An estimated \$1.3 billion had been spent as of the end of October, 2004. See Office of the Inspector General, Coalition Provisional Authority, "Third Quarterly Report to Congress: Appendix J, DoD Status Report on Iraq," October 30, 2004, http://www.cpa-ig.com/pdf/oct_appendix_j.pdf. The Project and Contracting Office, which reports to the U.S. Army and the Department of Defense, is responsible for implementing \$12.4 of the \$18.4 billion. Thus far, a total of \$24.1 billion in U.S. funds has been appropriated for Iraqi reconstruction efforts. See Office of the Inspector General, Coalition Provisional Authority, "Third Quarterly Report to Congress," October 30, 2004, http://www.cpa-ig.com/pdf/cpaig_october_30_report.pdf.

² USAID Office of the Inspector General, "Audit of USAID/Iraq's Economic Reform Program: Audit Report No. E-266-04-004-P," September 20, 2004, <http://www.usaid.gov/oig/public/fy04rpts/e-266-04-004-p.pdf> (49%); Government Accountability Office, "Rebuilding Iraq: Resource, Security, Governance, Essential Services, and Oversight Issues," Report to Congressional Committees, June 2004 (14.3-18%).

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Security: As noted above, estimates about the amount of U.S. reconstruction funds being spent on security for U.S. contractors vary widely, with a low-end estimate of 15% and high-end estimates ranging from 50-70%. Several sources have settled on the 30% estimate used here. We derived our estimate, *inter alia*, from the following sources: Alan Chvotkin, "Iraq Contracting Lessons Learned," Professional Services Council, December 2, 2004, http://www.afmc-pub.wpafb.af.mil/HQ-AFMC/PK/pkp/cig/dec04/chvotkin_lessons_learned.ppt; USAID Office of the Inspector General, "Audit of USAID/Iraq's Economic Reform Program: Audit Report No. E-266-04-004-P," September 20, 2004, <http://www.usaid.gov/oig/public/fy04rpts/e-266-04-004-p.pdf>; Government Accountability Office, "Rebuilding Iraq: Resource, Security, Governance, Essential Services, and Oversight Issues," Report to Congressional Committees, June 2004; conversations with State Department officials and contractors working in Iraq; F. Brinley Bruton, "Iraq Security Eating Chunks of Contractors Costs," *Reuters*, April 13, 2004; Robert Collier, "Migrants Trade Poverty for Danger: Wages are Simply Too Good to Pass Up," *San Francisco Chronicle*, August 5, 2004, p.A1.

Corruption/Fraud/Mismanagement: Myriad sources have documented instances of corruption, fraud, and mismanagement that have led to a loss of a certain amount of U.S. funding, although no U.S. government source attempts to estimate the exact amount of money that has been lost to these causes. The only precise estimate quoted in the media and elsewhere—that 30% of reconstruction funds are being lost to corruption—derives from one estimate by an official at Transparency International. The estimate suggested here is significantly lower than 30% yet attempts to account for the numerous cases of rampant corruption and fraud in Iraq, poor oversight of U.S. spending, and waste or mismanagement by contractors that have been documented in several U.S. government and international audits, as well as press reports. The sources we reviewed include: Office of the Inspector General, Coalition Provisional Authority, "Third Quarterly Report to Congress," October 30, 2004, http://www.cpa-ig.com/pdf/cpaig_october_30_report.pdf; Office of the Inspector General, Coalition Provisional Authority, "Audit Report: Accountability and Control of Material Assets of the Coalition Provisional Authority in Kuwait, Report Number 05-002," October 25, 2004; KPMG Bahrain, "Development Fund for Iraq: Report of Factual Findings in Connection with Disbursements," September, 2004; KPMG Bahrain, "Development Fund for Iraq: Report of Factual Findings in Connection with the Oil Proceeds Receipts Account," September 2004; Office of the Inspector General, Coalition Provisional Authority, "Report to Congress," July 30, 2004, http://www.cpa-ig.com/pdf/cpaig_july_30_report.pdf; USAID Office of the Inspector General, "Audit of USAID's Results Data for Its Education Activities in Iraq: Report No. E-266-04-001-P," March 19, 2004, <http://www.usaid.gov/oig/public/fy04rpts/e-266-04-001-p.pdf>; Transparency International, "Corruption Perceptions Index 2004," <http://www.transparency.org/cpi/2004/cpi2004.en.html> (Iraq received a score of 2.1, 10 being very free of corruption and 0 being very corrupt); Erik Eckholm, "Memos Warned of Billing Fraud by Firm in Iraq," *New York Times*, October 23, 2004, p. A1; Celia W. Dugger, "Iraq Susceptible to Corruption, Survey Finds," *New York Times*, October 21, 2004, p. A8; Sue Fleming, "Military Reverses Decision on Billings: Instead of Withholding Payments, the Army will give Halliburton More Time to Resolve a Dispute," *Reuters*, August 18, 2004; T. Christian Miller, "Iraq Funds Are Focus of 27 Criminal Inquiries," *Los Angeles Times*, July 30, 2004, p. A1; "Halliburton Accused of Overcharging," *Bloomberg News*, July 22, 2004; Adam Davidson and Mark Schapiro, "Spoils of War: Parts I-IV," Marketplace and Center for Investigative Reporting, April 20-23, 2004.

Overhead: The Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan (P.L. 108-106) authorizes the use of up to 10% of the \$18.4 billion for overhead and other U.S. administrative costs. The State Department recently estimated that \$719,553,000 will be used in FY 2004-2005 for operating costs of U.S. government agencies. See U.S. Department of State, "Section 2207 Report to Congress," October 2004, <http://www.state.gov/documents/organization/36918.pdf>. See also USAID Office of Inspector General, "Audit of USAID/Iraq's Infrastructure Reconstruction and Rehabilitation Program: Audit Report No. E-266-04-002-P," June 3, 2004, <http://www.usaid.gov/oig/public/fy04rpts/e-266-04-002-p.pdf>; Jonathan Weisman and Ariana Eunjung Cha, "Rebuilding Aid Unspent, Tapped to Pay Expenses," *Washington Post*, April 20, 2004, p. A1.

Profits: Steve Schifferes, "The Challenge of Rebuilding Iraq," *BBC News*, October 21, 2003 (Cliff Mumm, Bechtel's project director for Iraq, estimated Bechtel's profit margin as 5-7%). This estimate has been confirmed in multiple interviews with contractors working in Iraq.

Insurance, International Salaries, and Other Costs:

This 12% estimate is almost certainly low, but it attempts to take account of the other types of costs on which reconstruction funds are being spent, which include insurance and salaries for international workers. Although there are no precise numbers, both insurance and international salaries, in addition to other attendant costs, are considerable. Charles Hess, the director of the Project and Contracting Office in Baghdad, recently estimated that insurance costs alone consume 30-50% of contracts. See Pamela Hess, "Security Costs Eat into Iraq Rebuilding," *United Press International*, October 7, 2004. Interviews with contractors in the field suggest that insurance costs are up to 30% of payroll costs. See also Alan Chvotkin, "Iraq Contracting Lessons

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Learned," Professional Services Council, December 2, 2004, http://www.afmc-pub.wpafb.af.mil/HQ-AFMC/PK/pkp/cig/dec04/chvotkin_lessons_learned.ppt; Robert Collier, "Migrants Trade Poverty for Danger: Wages are Simply Too Good to Pass Up," *San Francisco Chronicle*, August 5, 2004, p. A1; Adam Geller, "Cost of Insuring Workers in Iraq Jumps as Dangers Multiply," *Insurance Journal*, July 5, 2004. At least one source has estimated that international salaries may be as much 100 times higher than salaries for Iraqi workers. See Betsy Pisik and Sharon Behn, "Rebuilding Iraq," *Washington Times*, July 31, 2004, p.A1 (noting that foreign workers' salaries can be \$1,000/day, compared to \$10/day for an Iraqi worker).

Direct Services/Investments/Remaining Contract Funds: One senior U.S. official has suggested that only 25% of U.S. reconstruction funding is reaching intended projects, while others have said the amount is less than 50%. In conversations and press reports, other administration officials have confirmed the breakdown suggested in this paper. See Jonathan Weisman and Robin Wright, "Funds to Rebuild Iraq Are Drifting Away From Target," *Washington Post*, October 6, 2004, p. A18; Paul Richter, "Costs Whittle Funds to Iraqis," *Los Angeles Times*, September 26, 2004, p. A1.